

School Oil Revenue
By Frank Loehding

(Use any part of this and feel free to copy and make changes. I am not sure of the dates.)

In the summer of 1989 a special legislative session was held as it was thought that a new formula was needed for the dispersion of oil taxes. Generally speaking, gross production of oil at that time was part of the taxable valuation of the district and was taxed just as any other property in the district. For example, if a district levied 10 mills, then the entire value of the production was taxed at the 10 mill rate. With this kind of oil taxation, if a district had some wells in it, then the district would generally have a very low mill rate due to the high taxable value. Oil companies would tend to drill even more wells in the districts that had wells just because of the low tax rate. They were reluctant to drill in a neighboring district that had no wells and a relative high mill levy. Naturally the oil companies wanted to have the same tax rate no matter where in the state they drilled. This would also help them make a decision as to whether to drill in an area or not by giving them a known amount for the tax. The need for a change was generally agreed upon by most of the interested parties.

1989
The solution was to take the oil out of the tax base and levy a flat tax on all oil production. This was done in a bill that was sponsored by Senator Nathe from Redstone, and passed into law. This tax was called Local Government Severance Tax, LGST, and a promise was made by the legislators that this would remain a local tax. At the time the percent of tax was set, I think, around 7 percent. The state also took a percent share of the tax that went to the state general fund. The result was that seven percent of all oil revenue in a district was distributed to any taxing entity in that district in direct proportion to the number of mills that the taxing entity levied in fiscal year 1990, the tax year starting November 1, 1989. This bill had the support of the Oil companies and the schools involved, and was be revenue neutral. This did result in allowing oil companies to drill anywhere in Montana and know just what their tax would be, which was the sole purpose of the bill. Another result, which was the ultimate goal, was the further expansion of oil activity in Montana.

When the equality of educational opportunity funding lawsuit was won by the schools, a new funding structure and a new levy of 40 mills was added statewide. The 40 mills was not part of the original bill for distribution of the LGST money, but the state claimed it should be and they should get a share of the LGST money. This was one of the first times the state reneged on the promise that the LGST money would remain local. Philips County took objection to state trying to collect on the 40 mills and would not send them any LGST money. This went to court, and was settled for an undisclosed amount. Saco did get a new gym out of the deal. Soon after this the LGST money was renamed in a new bill so we no longer had the oil severance called LGST money.

{ In 1994 every county was required to levy 55 mills, and the state levied an additional 40 mills, for a total of 95 "state" mills. These mills all shared in the oil severance tax. In 1996 the amount

equal to 41.6% of the oil production taxes, including late payment interest and penalty must be distributed to the state. This was in addition to the money received from the 95 mills.

Still in 1996 the law stated that the county treasurer shall first allocate the oil and natural gas production taxes to the taxing units within the county in the same proportion that all other property tax proceeds were distributed in the county in direct proportion to the number of mills that the taxing entity levied in fiscal year 1990. *John Lee*

Distribution of oil was changed again in, I believe, the 1997 legislative session. New taxing entities that had no access to the oil money wanted a share of the severance tax and some of the needs of the present taxing entities had changed since 1990, so a new formula was devised. The new bill allowed distribution of the oil severance tax to be in the same proportion as the mills levied in the previous taxing year instead of the 1990 year. This solved some of the problems, but created more. The biggest problem for schools was the "yo-yo" effect. If a school received a large proportion of oil money one year, then they would have low mills levied that year. The next year, as the oil revenue was based on the previous years mills levied, they would not get the money needed, would have to increase mills and then, of course, have a great deal of oil money the next year, and so on.

To solve this problem, a new bill for the distribution of oil was needed. This is the one in place now. 2001? The new bill, to simplify things, uses a five year average of mills levied by taxing units in each district and distributes the money proportionally. This is a fixed average and does not move, so it will probably have to be redone at some time in the future. One result of this bill may account for the high oil severance revenue that Lambert receives, as they had their levies in place before their district had much oil production.

Fellow Superintendents,

The information above is from Frank Loehding who has forgotten more about oil and gas revenue than I believe I will ever know. I will now continue the story as it relates to the Sidney Public Schools.

Sidney High School

The excess oil and gas revenue has enabled Sidney High School to address serious building issues, some that have been areas of concern for over two decades.

Approximately twenty years ago the Northwest Association of Schools and Colleges recommended replacement of the library as the space was inadequate for the needs of the students. Additionally, with the passage of the Americans With Disabilities Act (ADA) the library did not provide appropriate space and access for individuals with disabilities. This project is scheduled to be completed in March of 2009.

Facilities and infrastructure have been the focus of the Sidney School Board as it relates to Sidney High School. Sprinkler systems have been installed, the science wing has been modernized and a safe and ADA compliant facility is now available for the students. The outdoor athletic facility has been upgraded to provide a more appropriate facility for the students and community. Further, ADA accessible bathrooms which did not previously exist are now accessible throughout the building. In keeping with the stated desire of Governor Schweitzer to

decrease energy consumption, the district has also installed ground source heating systems when possible. Future plans include expanding the ground source heating project to decrease energy consumption and upgrading the Art and Mathematics rooms so they are safer and more appropriate for the students. The district is currently reviewing the needs of all heating systems in the high school building in an effort to decrease energy consumption and to modernize the mechanical systems of the building.

In addition, Sidney High School operates an Alternative Education program that simultaneously serves as a drop-out prevention and drop-out retrieval program. To date three students who previously dropped out of high school have reenrolled and are expected to graduate in the spring of 2009. The program has also prevented six students currently enrolled in school from dropping out of high school during the 2008-2009 school year. Sidney High School also operates an after school tutorial program funded with oil and gas revenue that assists students in achieving graduation and achieving adequate yearly progress. The district is currently working on implementation of summer school and gifted and talented programs. The purpose of this initiative is to increase student achievement, improve the graduation rate and assist in achieving adequate yearly progress.

Finally, since the district does not have adequate general fund revenue to provide health insurance to all employees, the oil and gas revenue has enabled the School Board to provide a benefit for all high school employees through a Health Reimbursement Arrangement Account (HRA). This benefit helps all school employees pay for unreimbursed medical expenses and is especially important to those employees who do not receive health insurance. This account has assisted all employees with their medical expenses and provides a mechanism for employee retention and recruitment in an economic environment where the high wages of the oil field are an attraction to school district employees. It goes without saying that it is impossible for Sidney High School to pay competitive wages with the oil field and this benefit for all employees enables the district to compete when vacancies occur.

Without the benefit of the oil and gas revenue, Sidney High School would be unable to provide the facility improvements and address the life and safety issues that have been corrected. Additionally, at-risk educational programs, the HRA program for all employees and the ability to address the handicapped access issues would cease to exist.

Sidney Elementary and Middle School

As Sidney Elementary District receives less than half of the oil and gas revenue when compared to Sidney High School district, addressing all areas of concern is more difficult financially and much more time consuming.

However, facilities and infrastructure have been the focus of the Sidney School Board as it relates to Sidney Elementary and Sidney Middle School. Again, in keeping with the stated desire of Governor Schweitzer to decrease energy consumption, the School Board has installed new energy efficient windows at Sidney Elementary. Further, additional insulation has been added to a portion of Sidney Middle School to improve energy efficiency. This was accomplished through a renovation of the third floor of the building that included providing modern and safe science room facilities for the students, removing asbestos containing material and modernizing the four remaining classrooms on this floor.

Future plans include replacement of the gymnasium floor in the elementary building to provide a safer facility and improve the air quality of the gymnasium for the students.

Additionally, the intention of the School Board is to continue the remodeling project at Sidney Middle School to the other two floors to improve the safety and quality of the instructional areas and improve the energy efficiency of the building. Last, the district is currently reviewing the needs of all heating systems in the three elementary and middle school buildings in an effort to decrease energy consumption and to modernize the mechanical systems of the building. It is the intention of the Trustees to utilize a ground source heating system when feasible to accomplish this objective.

In addition, Sidney Middle School operates an Alternative Education program that serves as a drop-out prevention mechanism and assists with achieving adequate yearly progress. To date two students who would have dropped out of school are successfully attending the Alternative Education class and one has been promoted to the high school level. The district is currently working on implementation of an after school tutorial, summer school and gifted and talented programs. The purpose of this initiative is to increase student achievement, improve the graduation rate and assist in achieving adequate yearly progress.

Finally, since the district does not have adequate general fund revenue to provide health insurance to all employees, the oil and gas revenue has enabled the School Board to provide a benefit for all elementary employees through a Health Reimbursement Arrangement Account (HRA). This benefit helps all school employees pay for unreimbursed medical expenses and is especially important to those employees who do not receive health insurance. This account has assisted all employees with their medical expenses and provides a mechanism for employee retention and recruitment in an economic environment where the high wages of the oil field are an attraction to school district employees. It goes without saying that it is impossible for Sidney elementary to pay competitive wages with the oil field and this benefit for all employees enables the district to compete when vacancies occur.

Without the benefit of the oil and gas revenue, Sidney Elementary would be unable to provide the facility improvements and address the life and safety issues that have been corrected. Additionally, at-risk educational programs, the HRA program for all employees and the ability to address the handicapped access issues would cease to exist.

Westby K-12 School

Westby School has been fortunate to receive excess oil and gas tax revenues for the past several years. Although these revenues have been very difficult to anticipate with any degree of certainty, the district has used these resources for a variety of purposes. Westby School has devoted a great deal of attention to deferred maintenance. In the past five years we have installed new energy efficient lighting, including ballasts and bulbs, replaced our windows with energy efficient vinyl windows, replaced all thermostats with programmable thermostats and are now in the process of systematically replacing our 40-year old electric room heaters.

Additionally, our resources have benefited our students by providing updated textbooks/teaching materials and technologies. Within the last five years we have replaced computers, purchased SmartBoards and updated antiquated software.

The district has utilized excess revenues to provide recruitment and retention of staff by offering incentives. For the past three years we have provided all classified and certified staff with contributions toward a Health Reimbursement Account.

For the past 15 years, our district has reappropriated excess revenues from Prior Year Budgets to Current Year Budgets which have funded the BASE budget in totality resulting in our district not receiving the GTB subsidy. The 40 mill state-wide GTB assessment for our district averages about \$53,000/year and has totaled nearly \$800,000 over this period of time.

Plevna

Oil and Gas revenues fluctuate from quarter to quarter which makes it difficult to anticipate the amount as a stable source of funding for the budget. Our funds are first dispersed to the general fund which alleviates GTB funding received from the state. The Trustees prioritize needs based on how the funds can impact student learning first, then staff recruitment and retention, and finally building maintenance. As a small community we pride ourselves on the fact that we have 100% graduation rates, we meet Annual Yearly Progress, and our ACT scores are above the state average. We have addressed student learning by purchasing research based curriculum and integrating technology into the curriculum. We currently have a base salary of \$24,000 with full family insurance offered to our employees. Our insurance package is the major factor in retention of staff. In terms of maintenance we continue to upgrade heating components because we can no longer replace parts manufactured in 1960. As of the 2008-2009 school year we are replacing fuel oil tanks above our gymnasium which have been classified as very dangerous by the fire inspector. We are now installing an electric boiler as a secondary source of heat to our coal boiler and removing the fuel oil tanks when our system has been thoroughly tested. This replacement project is in its third year due to the fact that we could not find companies to work with us because of geographic location and the scope of the entire project. The oil companies in our area generally have priority because of the volume of business conducted. In summary, we continually strive to utilize oil and gas funds as a means of keeping our doors open and contributing to the economy of our community and state.

Whitewater

Whitewater Schools has been fortunate to receive oil and gas money as we are a small community that can only make improvements in our facilities and curriculum through the use of this money. The Trustees have not spent money unwisely or irresponsibly as they have made every decision with great concern for the local tax payer's interest. We have made many improvements on our building and have added on to our building so that we have adequate facilities for our students to utilize. We have also installed energy saving lights and ballasts along with movement activated light switches to help keep energy costs down. We replaced our seventy year old boiler with energy efficient heaters in a large portion of our school. Our teacher base salary is still at \$21,104 as we can not afford to increase it due to budget restraints. This has made it very difficult to get teachers in this area because of the remoteness and low pay. Our school and community are far from rich from the gas fields in this area. With a free and reduced lunch count of around 50% and a small number of ranches in this community the tax burden is not spread to a large number of people. The gas companies in this area and a few ranches are the only businesses that this community has. We don't have any other businesses that can produce a tax base like the larger towns in the state. The gas money has not allowed us to live "high on the hog", but rather has allowed us to bring some of the technologies and new ways of learning that